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Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Mach7 Technologies

By TIM BOREHAM

ASX code: M7T

Share price: 94 cents

Shares on issue: 234,618,370

Market capitalization: $220.5 million

Chief executive officer: Mike Lampron

Board: David Chambers (chair), Jenni Pilcher, Dr Elio Siegel, Robert Bazzani, Mr Lampron

Financials (September quarter 2020): receipts $3.75 million, operating cash outflows $1.82 million, cash balance $17. million, quarters of available funding: 9.8
Year to June 30 2020: revenue $18.9 million (up 102%), earnings before interest tax depreciation and amortization (Ebitda) $3.3 million (up 180%), net profit after tax $169,000 (previous $7.05 million loss)

Major holders: Steven James (JFMG Financial) 14.35%, Clime Investment Management 9.11%, Australian Ethical 6.45%.

In geek terms mach 7 refers to seven times the speed of sound, which is quite apt given the namesake company's hypersonic equities performance.

The reason for Mach7's warp share speed is that it has emerged as a US leader in 'enterprise imaging' - the gentle art of creating, storing and viewing medical happy snaps.

In the words of the marketing department, the company strives for an “integrated imaging ecosystem where all technology works in harmony”.

Mach7 shares have zoomed fivefold over the last two years, with revenues last year more than doubling (albeit off a low base). In September, the company was promoted into the recently-created S&P ASX technology index.

Mach7 is also profitable. But a key reason for the investor ardor lies elsewhere: the remarkable performance of ASX exemplar - or quasi rival - Pro Medicus.

As we’ll explain, the pair operates in subtly different sectors, but that’s hardly going to stop Mach7 punters dreaming of becoming the next Pro Medicus.

About Mach7

Mach7 is surfing the digital records trend with its internet “cloud”-based enterprize software for hospitals and clinics. This allows for these healing houses to aggregate an individual’s medical records so that they are readily available for healthcare professionals.

“All parts of hospitals produce images,” says chief executive Mike Lampron. “We are a central repository for those images to be stored in a way that allows customers to consolidate their supply chain and reduce costs.

“We also serve up data in a clinically meaningful way. Part of that could be a digital medical record, accessing data directly from our own systems, or hospitals acquiring their own [artificial intelligence] algorithms to assist them to read those studies.”

Mach7 claims to be one of the few truly independent providers of vendor neutral archives, or VNAs.

As their name suggests VNAs allow any provider’s imaging tools to be integrated on the platform. In contrast, incumbents such as GE Health, Fuji and Highland Medical provide archiving as an add-on component of their software.

Mach7 also provides picture archive communications systems, or PACS, the diagnostic tool used by clinicians.

In July, Mach7 paid $40.9 million for the Ontario-based Client Outlook, which expanded the company’s reach from the ‘back end’ - the archiving and the handling - to image viewing.

Founded in 2002, Client Outlook and its key Eunity Viewer product has about 90 customers and in private hands turned over $8.8 million in the year to June 2020 - just under half of Mach7’s turnover.

The purchase expands Mach7’s total addressable market from $US750 million ($A1.05 billion) to $US2.75 billion.

While Mach7 is focused on the US market, it has clients in Britain, Qatar, China and South East Asia.

Takers include Advocate Aurora Healthcare, Adventist Health Tulare, Penn Medicine, Massachusetts General Hospital, University of Virginia Health System, Broward Health (a top 10 hospital owner), Maine Health (a state-wide healthcare provider) and Hamad Medical Corp (Qatar's leading hospital system).

In 2018, the company won its biggest contract, a $15 million deal with the Hospital Authority of Hong Kong, which manages 43 public hospitals.

Thanks Mike … and over to you, Mike

Based in Burlington, Vermont, Mach7 was founded in 2007 by image workflow expert Ravi Krishnan, who has held roles at GE Healthcare and Agfa Healthcare (Mr Krishnan remains Mach7's chief strategy officer).

Mach7 launched its first product in 2012. In March 2016, the company merged with the ASX-listed diagnosis house 3D Medical - a reseller of Mach7's products - in a share deal.

Mr Lampron signed on as the company's chief operating offer in March 2017, while Michael Jackman became CEO in September 2017.

But the board decided that two Mikes were one too many and Mr Lampron became CEO in March last year. A medic in the US Air Force, Mr Lampron went on to senior health roles at IBM, GE Health and teleradiology group Imaging on Call.

Mach7 chair David Chambers is notable as the former CEO of Pro Medicus and Visage Imaging.

Chief financial officer and company secretary Jenni Pilcher was Australian chief executive at 3D Medical and has also been chief numbers woman at Mesoblast and Alchemia.

A mandate for change

While Mach7 had been winning contracts, Mr Lampron came to the big chair with a change agenda.

"Our strategy was to go after several markets including Latin America and Europe and we were being very opportunistic," Mr Lampron says. "We decided our spend was too high and our company was too small to be all over the globe."

The company settled on two key geographies - North America and the Asia Pacific - and set a target of positive cash flow by February this year (which it achieved ahead of time).

“I wanted to prove to investors that you can cut back on costs and worry about cash, but it really doesn’t have to be at the cost of building revenue,” he says.

“It doesn’t have to be one or the other.”

Finances and performance

Mach7’s revenue of $18.9 million in the year to June 30, 2020 consisted mainly of $10.4 million from software, $5.5 million-plus from annual maintenance fees and $2.4 million from professional service fees.

Geographically, the US accounted for $10.9 million, or 58 percent. The Asia Pacific - mainly Honkers - chipped in another $6.8 million (36 percent), with $1.2 million (six percent) derived from the Middle East.

Mr Lampron says each category had double digit growth, with the US software fees skewed towards Advocate Aurora Healthcare.

A year ahead of the Covid crunch, management launched a costs blitz, with the Client Outlook purchase expected to deliver $2 million of integration savings. Of this amount, $1.5 million has been banked already.

Client Outlook will deliver annuity subscription revenues, which will offset Mach7’s traditionally lumpy sales of capital equipment.

To fund the Client Outlook purchase, Mach7 raised $34.8 million, $31.1 million by way of a one-for-four rights issue and the remainder in a placement. The raising was struck at 68 cents a share, a 14 percent discount.

Late last year, the company raised $20 million in a placement at 62 cents apiece.

Mach7 shares have pivoted from a coronavirus-era low of 37 cents (March 23 this year) to a record high of $1.13 on October 6. In mid-June 2017 the stock traded as low as 11 cents.

Quantifying the Covid curse

As could be expected, Mach7’s sales slowed in the June half, as client hospitals turned from tweaking their tech to requisitioning respirators. But management expects growth to “resume and even accelerate” as a result of pent-up demand.

“Our software is useful to hospitals in these times when they need to find solutions to allow clinicians to work outside the walls of the hospitals,” Mr Lampron says.

The company cited contracted annualized recurring revenue (CARR) of $9 million as of June 30, 2020, up 14 percent despite the June half slowdown.

Mach7 also logged sales orders of $13.28 million for the year, bearing in mind the Hospital Authority of Hong Kong coughs up when the services are delivered, rather than upfront.

In the September quarter the company increased new orders by $3.3 million and added another $900,000 to CARR. The company also signed on nine new customers.

Mach7 versus Pro Medicus

Mr Lampron says there's "no obvious ASX alternative for pure exposure to enterprise imaging".

But what about the aforementioned Pro Medicus?

The way the Mach7 camp sees it, Pro Medicus provides radiology systems for the more traditional academic medical centres.

Mach7's "enterprise imaging" appeals to a broader audience of integrated delivery networks, or IDNs: a formal grouping healthcare and health insurers provided in a defined US geography.

"Mach7 focuses on the rest of the 'ologies': dermatology, oncology, cardiology, pathology ... for the Auroras and the Adventists of the world," Mr Lampron says.

As a result, Mach7 and Pro Medicus rarely trip over each other in the market, but increasingly they are tackling each other's turf. For example, the Client Outlook purchase allows Mach7 to offer radiology imaging.

"Radiology PACs are very traditional, you are replacing an existing system rather than selling a new one," Mr Lampron says.

"We both have the same concept but we are both coming at it from completely different perspectives."

But he won't argue with the success of Pro Medicus: "They are a beast in the market and they have a great product."

Dr Boreham's diagnosis:

At a macro level, the enterprise imaging market is worth about $US2 billion today and is forecast to double to $US4 billion by 2024.

Despite attempts to roll-back Obama care – US President Barack Obama's sweeping health reforms - the mandating of digital health records has not been affected and this is positive for the company.

Without proffering any specific guidance Mr Lampron says Mach7 expects to have "another great year", albeit skewed to bedding down Client Outlook.

The emergence of black ink on the bottom line is encouraging at Mach7's still immature stage of development.

Yes, the $169,000 reported net profit wouldn't buy a broom cupboard in Burlington but the company has gone a long way since losing $17.6 million in 2016-'17 and $12.6 million in 2015-'16.

Call us old fashioned, but black ink trumps red ink any day - as opposed to a blue wave trumping Trump which we haven't quite witnessed this week.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. The author holds Mach7 shares as part of his early retirement scheme, which amounts to unfairly jinxing the company.